STRATEGIC IMPLICATIONS OF TRADE CLASS SHIFTING

PHILIP MORRIS

MARKETING INFORMATION & ANALYSIS
AUGUST 1992

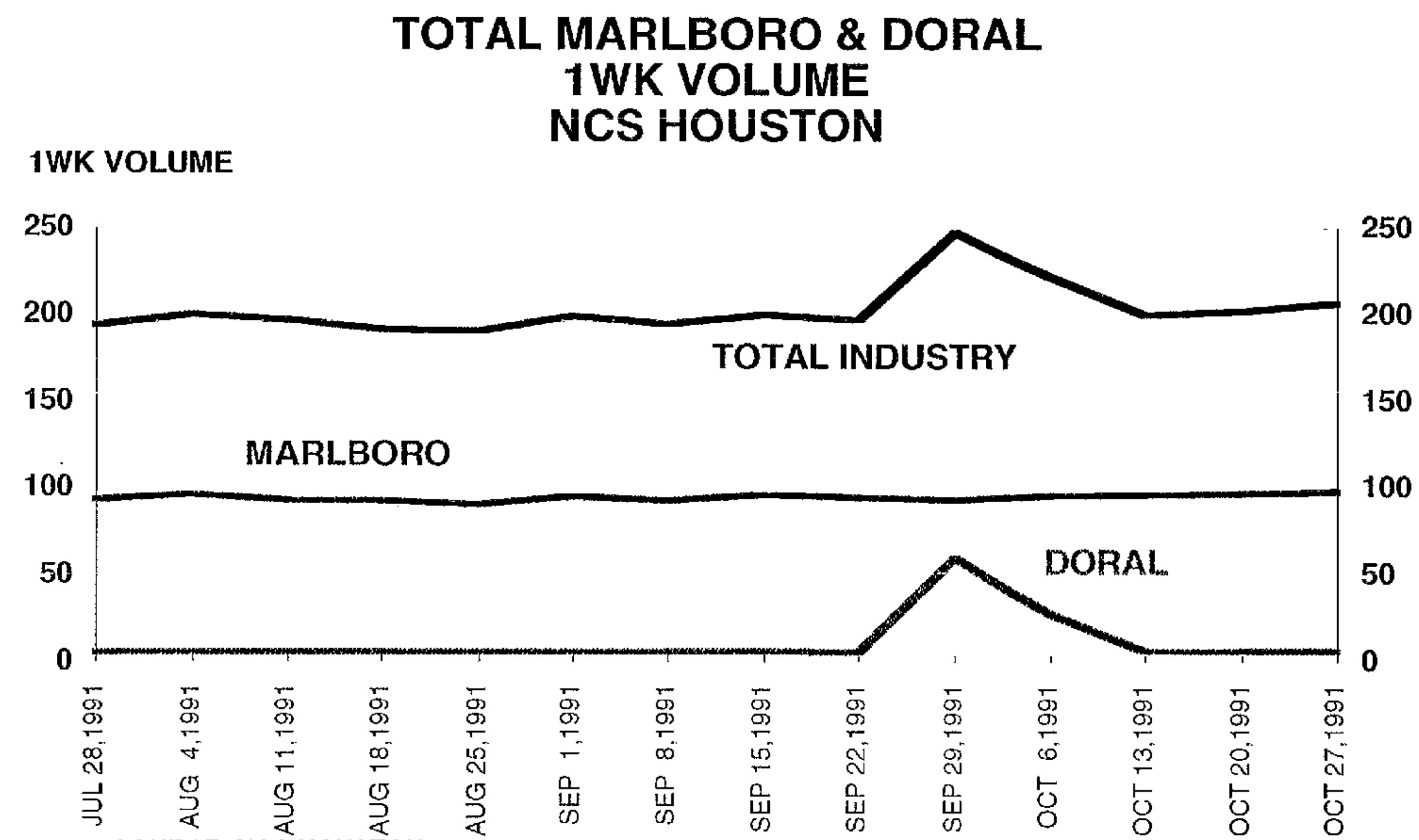
2041420569

PM USA

KEY POINTS

- SUPERMARKETS LOSING VOLUME TO C-STORES
- INTERPRETATION OF PERFORMANCE MORE COMPLEX
- AGGREGATE PRICE GAP WIDENING
- TRADE CLASS SEGMENTATION METHODOLOGY WEAKENING
- NEED TO REFOCUS ON GEO/DEMOGRAPHIC SEGMENTATION

PM USA



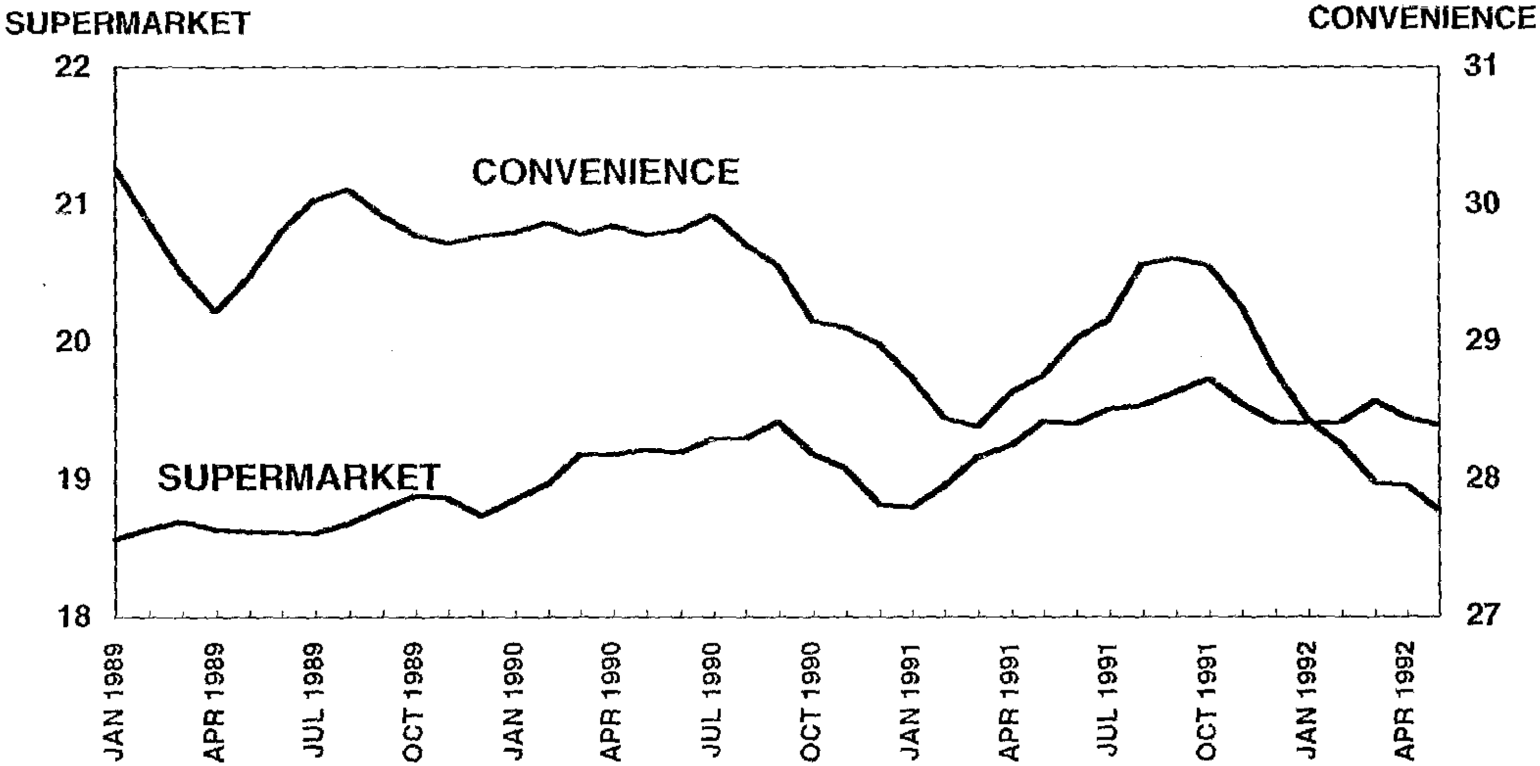
SOURCE: NCS HOUSTON

LRASTCS

2041420571

TOTAL MARLBORO

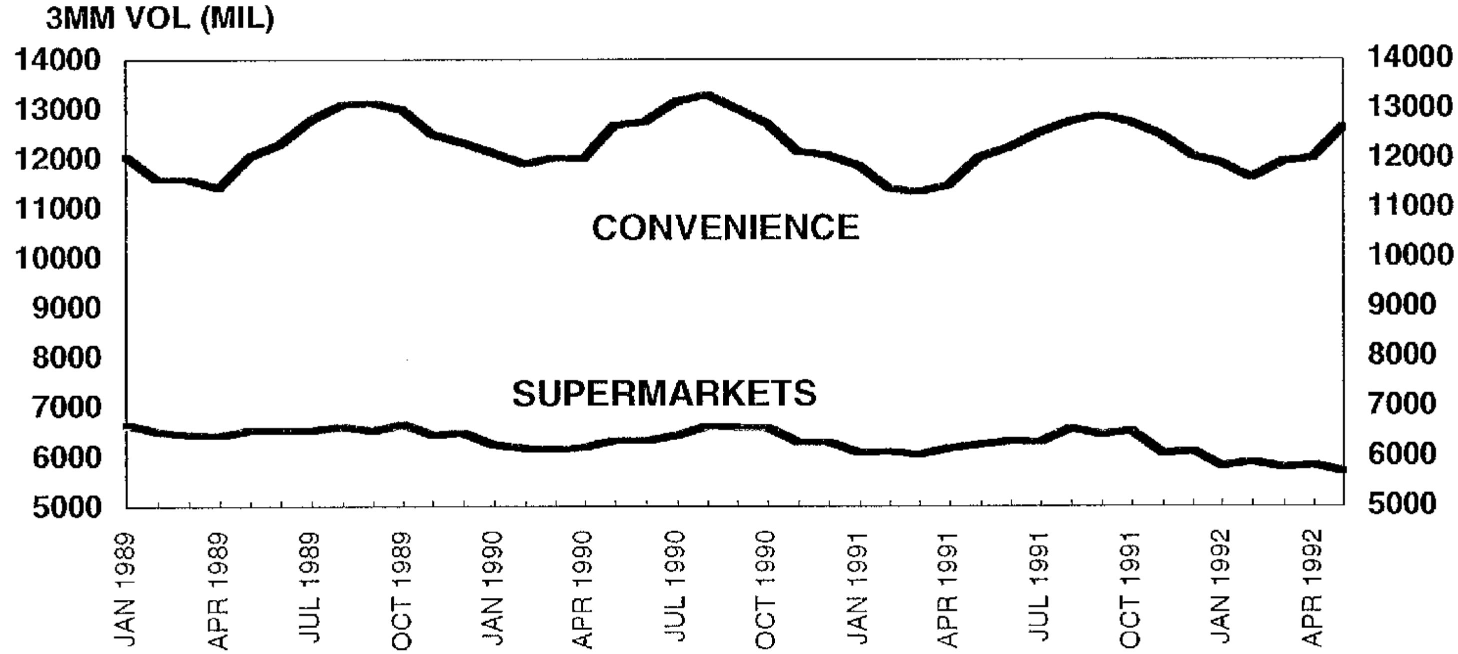
3MM SHARE OF VOLUME
TOTAL SUPERMARKET vs. TOTAL CONVENIENCE



SOURCE: NIELSEN

PM USA

TOTAL MARLBORO
3MM VOLUME
TOTAL SUPERMARKETS VS. TOTAL CONVENIENCE



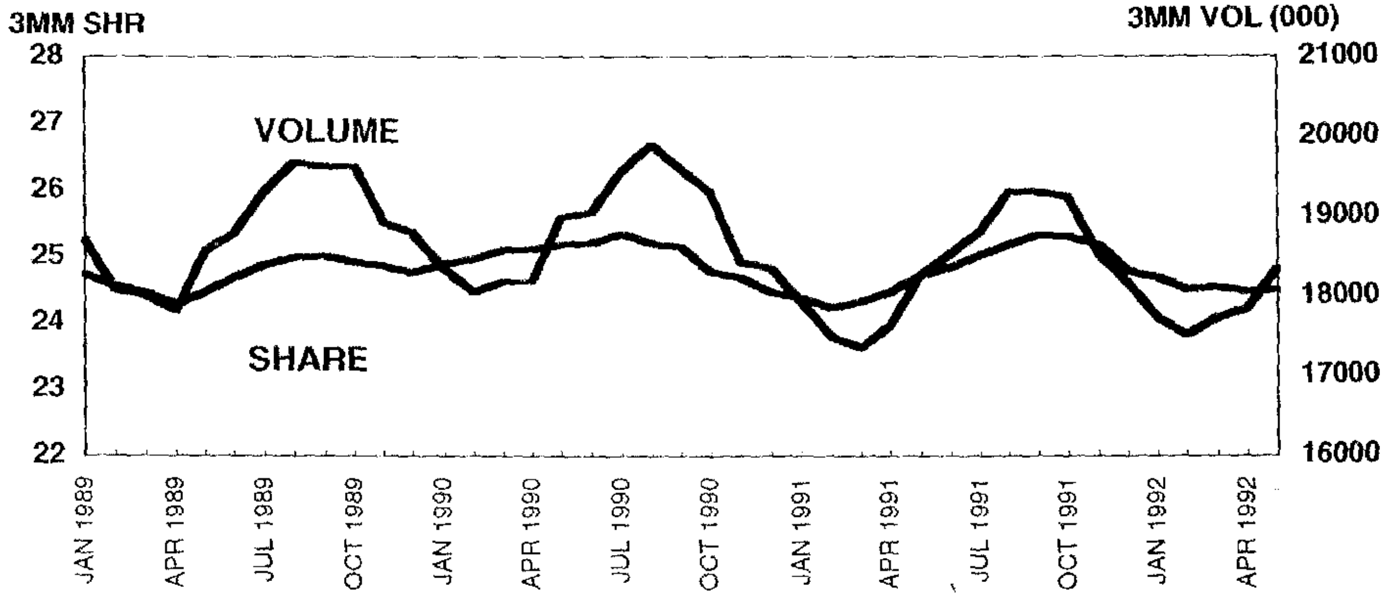
SOURCE: NIELSEN

LRASTCS

2041420573

PM USA

TOTAL MARLBORO
3MM SHARE VS. VOLUME
SUPERMARKETS/CONVENIENCE



SOURCE: NIELSEN

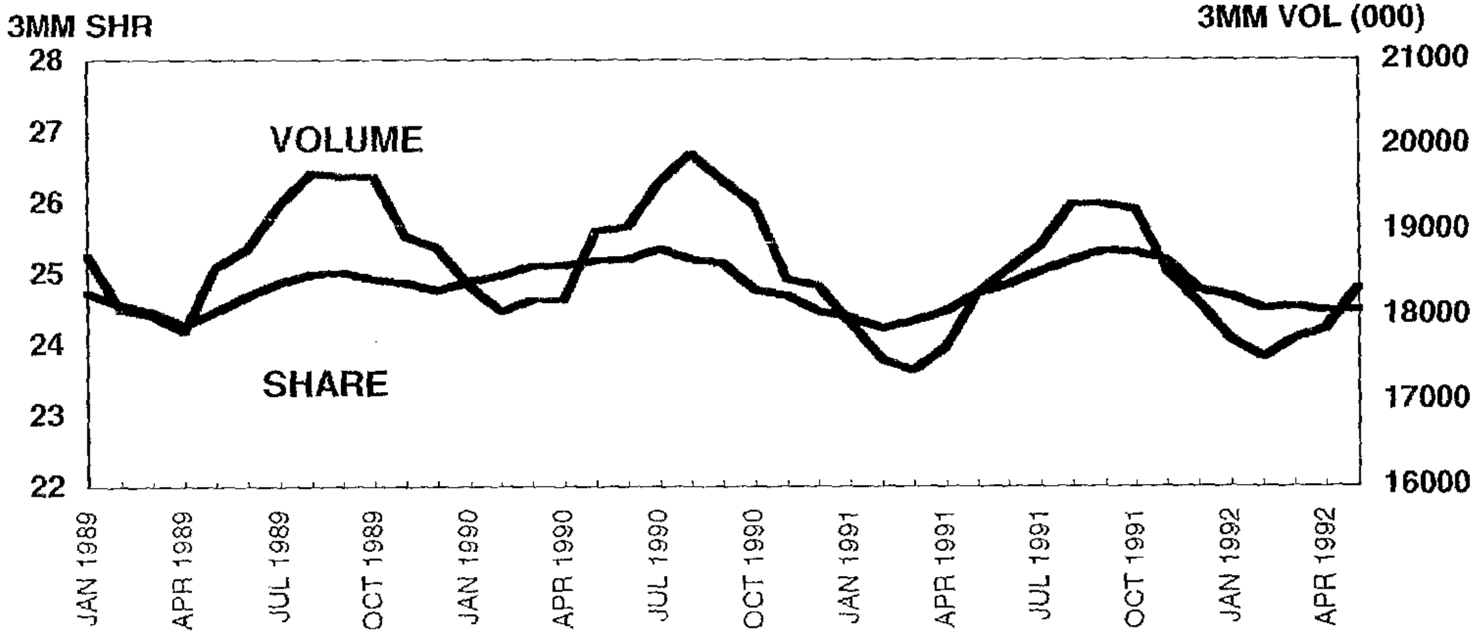
LRASTCS

2041420574

2041420575

PM USA

TOTAL MARLBORO
3MM SHARE VS. VOLUME
SUPERMARKETS/CONVENIENCE

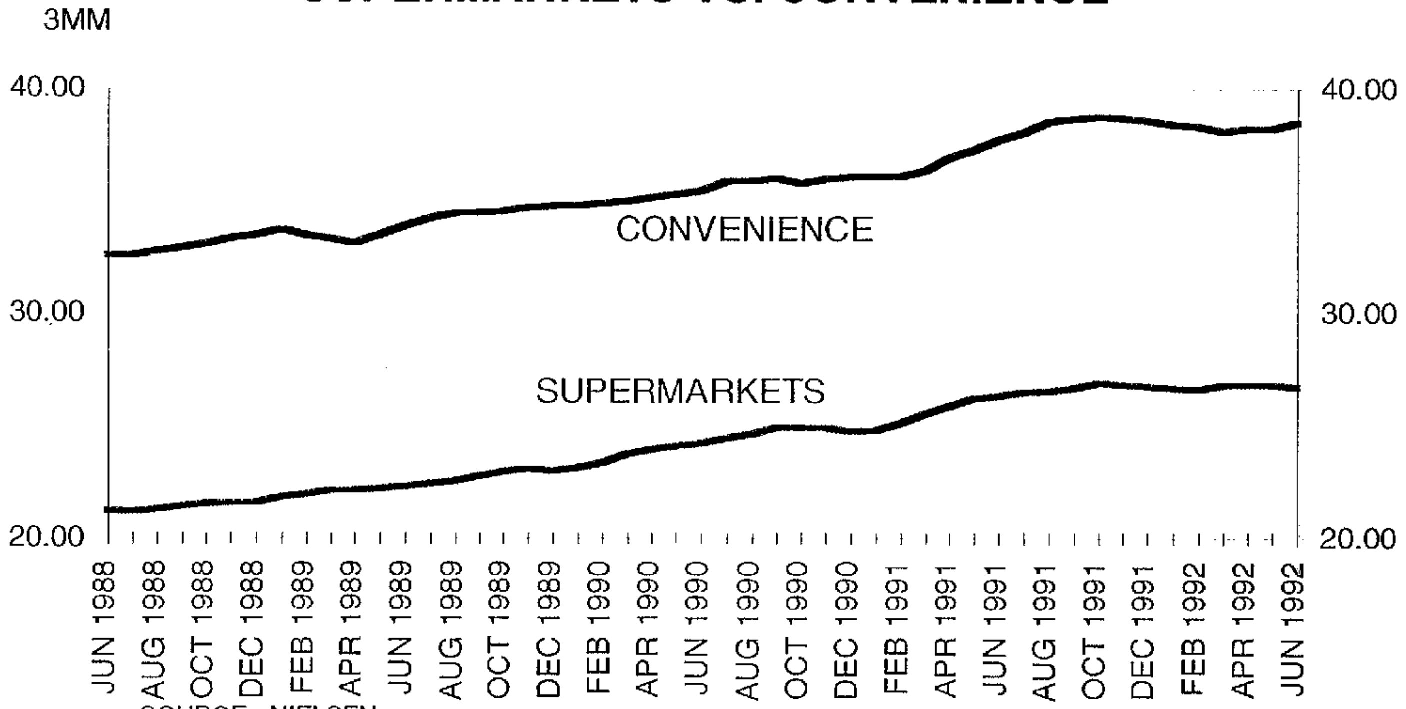


SOURCE: NIELSEN

LRASTCS

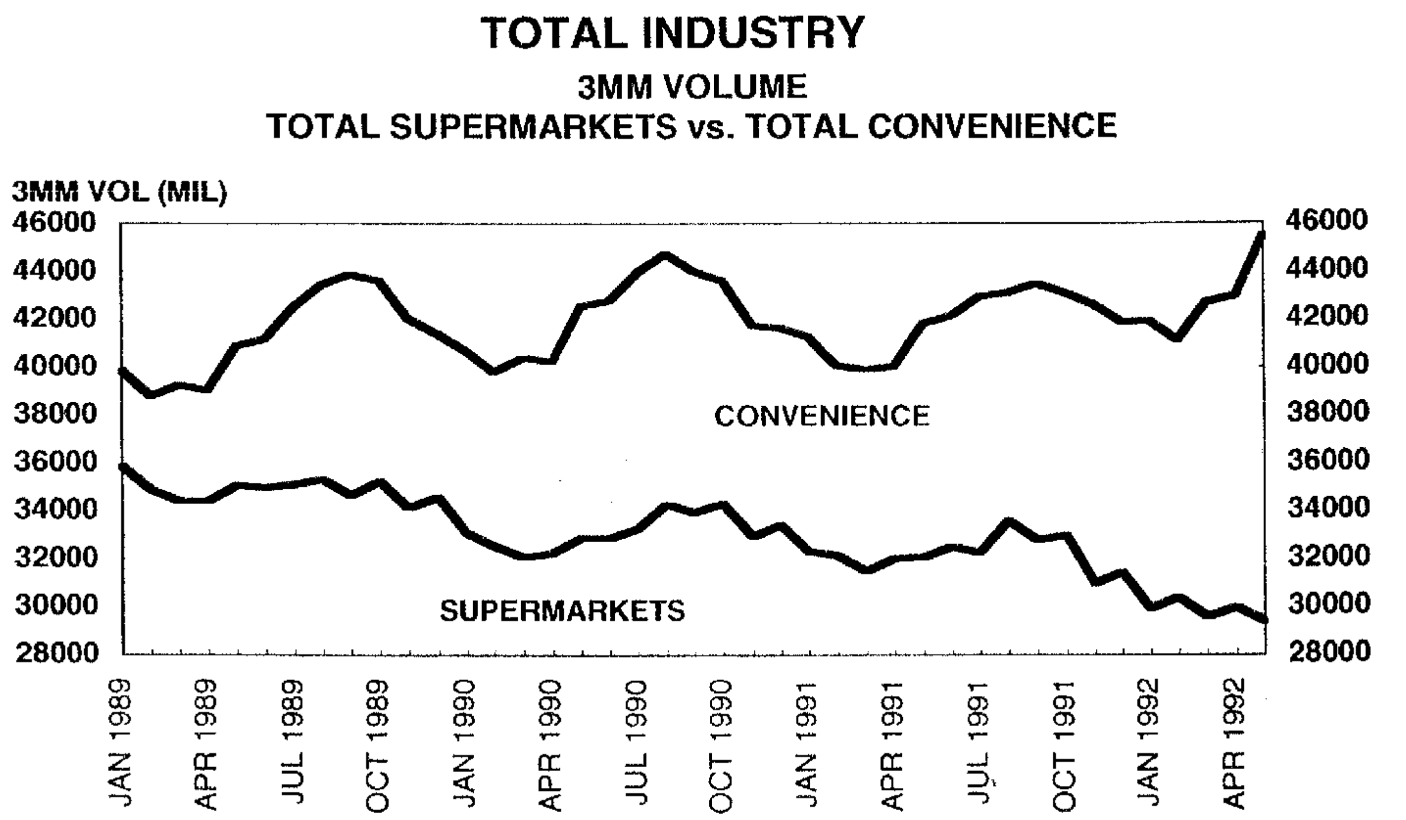
2041420575

MARLBORO
SHARE OF FULL MARGIN
SUPERMARKETS VS. CONVENIENCE



SOURCE: NIELSEN

PM USA



SOURCE: NIELSEN

LRASTCS

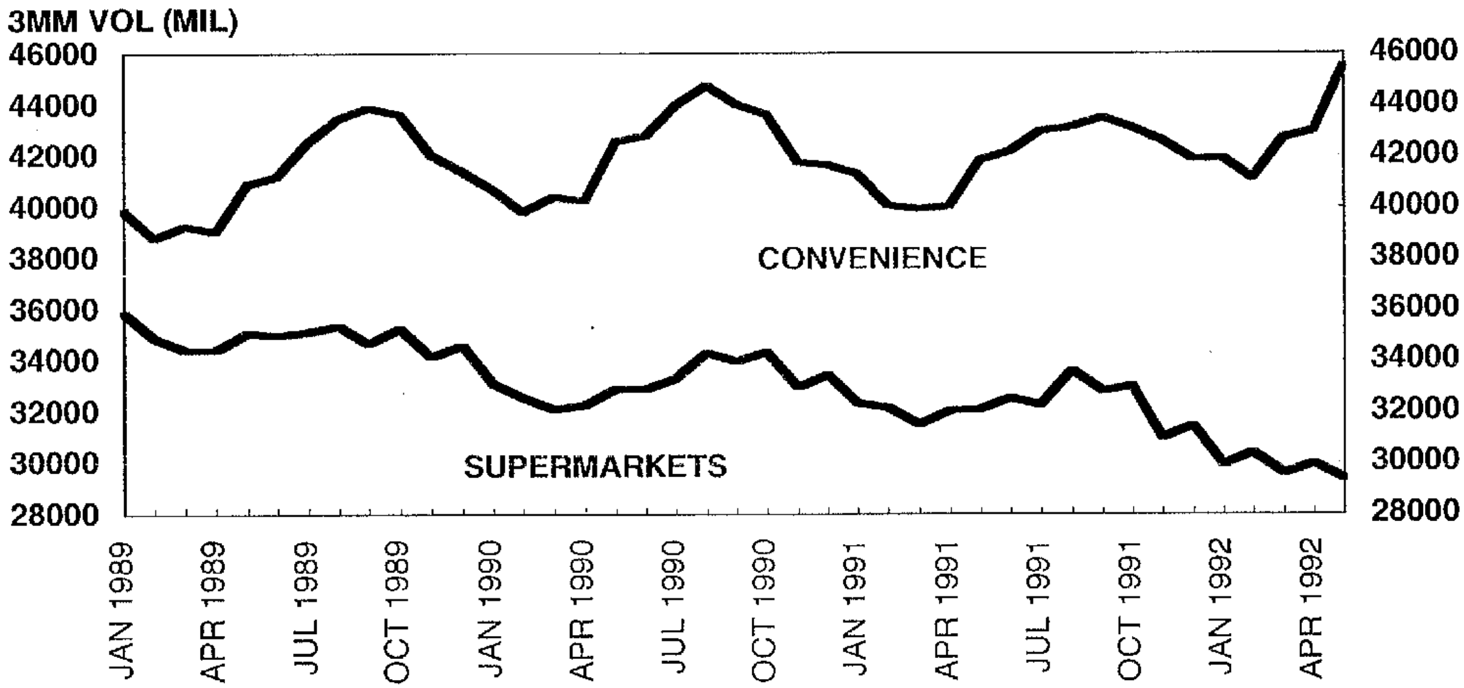
2041420578

2041420577

PM USA

TOTAL INDUSTRY

3MM VOLUME
TOTAL SUPERMARKETS vs. TOTAL CONVENIENCE



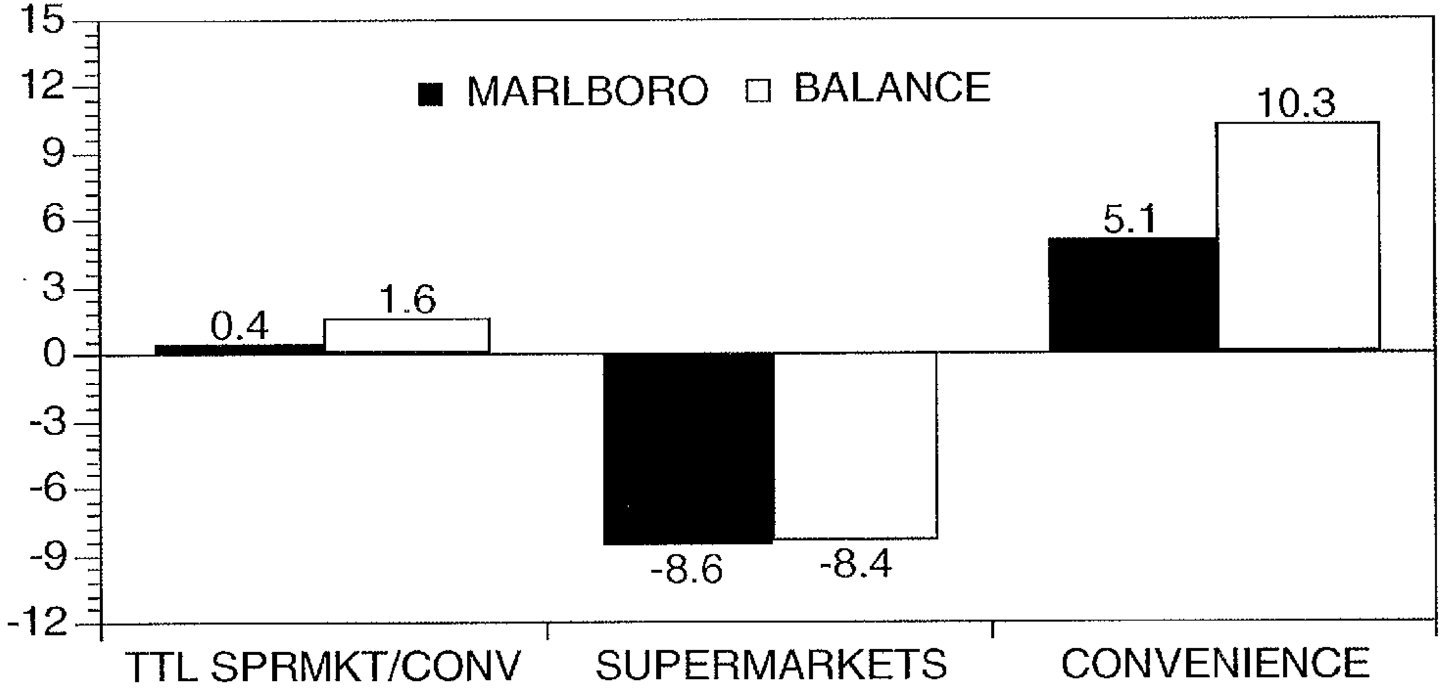
SOURCE: NIELSEN

LRASTCS

2041420578

PM USA

MARLBORO AND BALANCE OF INDUSTRY MAY 3MM VOLUME % CHANGE VS. YAG TOTAL SUPERMARKET VS TOTAL CONVENIENCE

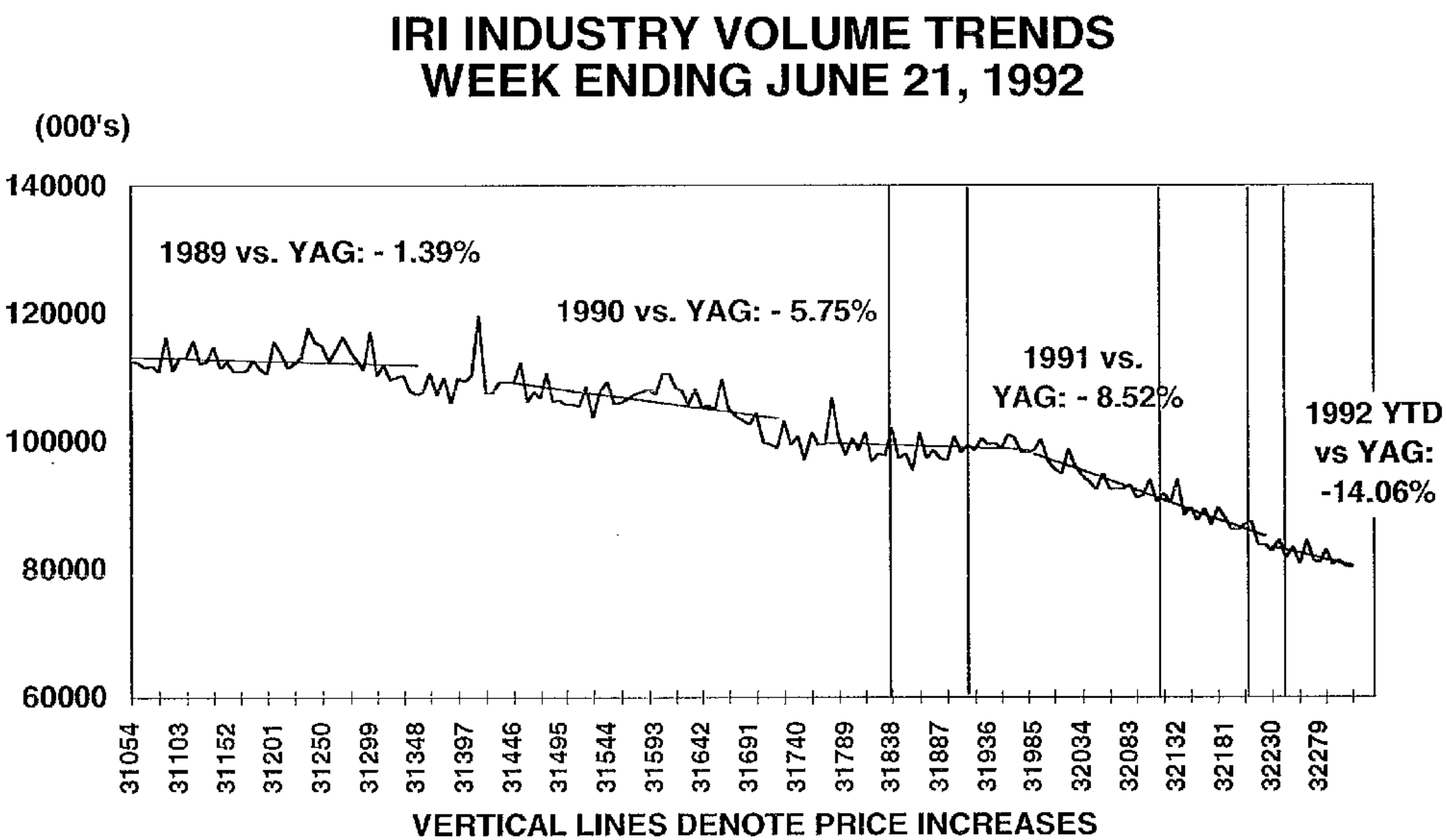


SOURCE: NIELSEN

MARLBORO PERFORMANCE

- **SHARE**
  - (CONVENIENCE) DILUTED BY VOLUME SHIFTS
  - (SUPERMARKETS) BOLSTERED BY VOLUME SHIFTS
- **VOLUME**
  - INCREASING IN C-STORES
  - DECLINING IN SUPERMARKETS
- **SHARE/VOLUME**
  - RELATIVELY STABLE ACROSS C-STORES/SUPERMARKETS

PM USA



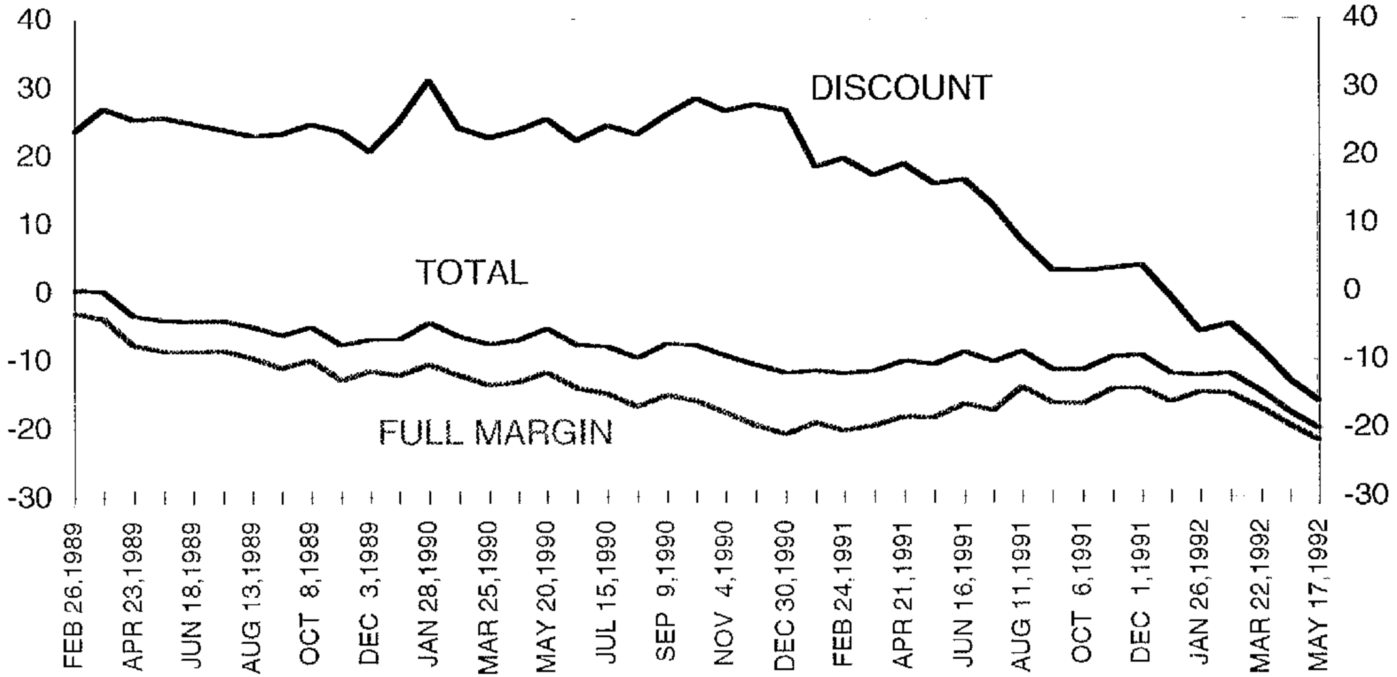
SOURCE: IRI RAPID FACT DATA

LRASTCS

2041420581

PM USA

SCANNING SUPERMARKETS VOLUME % CHANGE



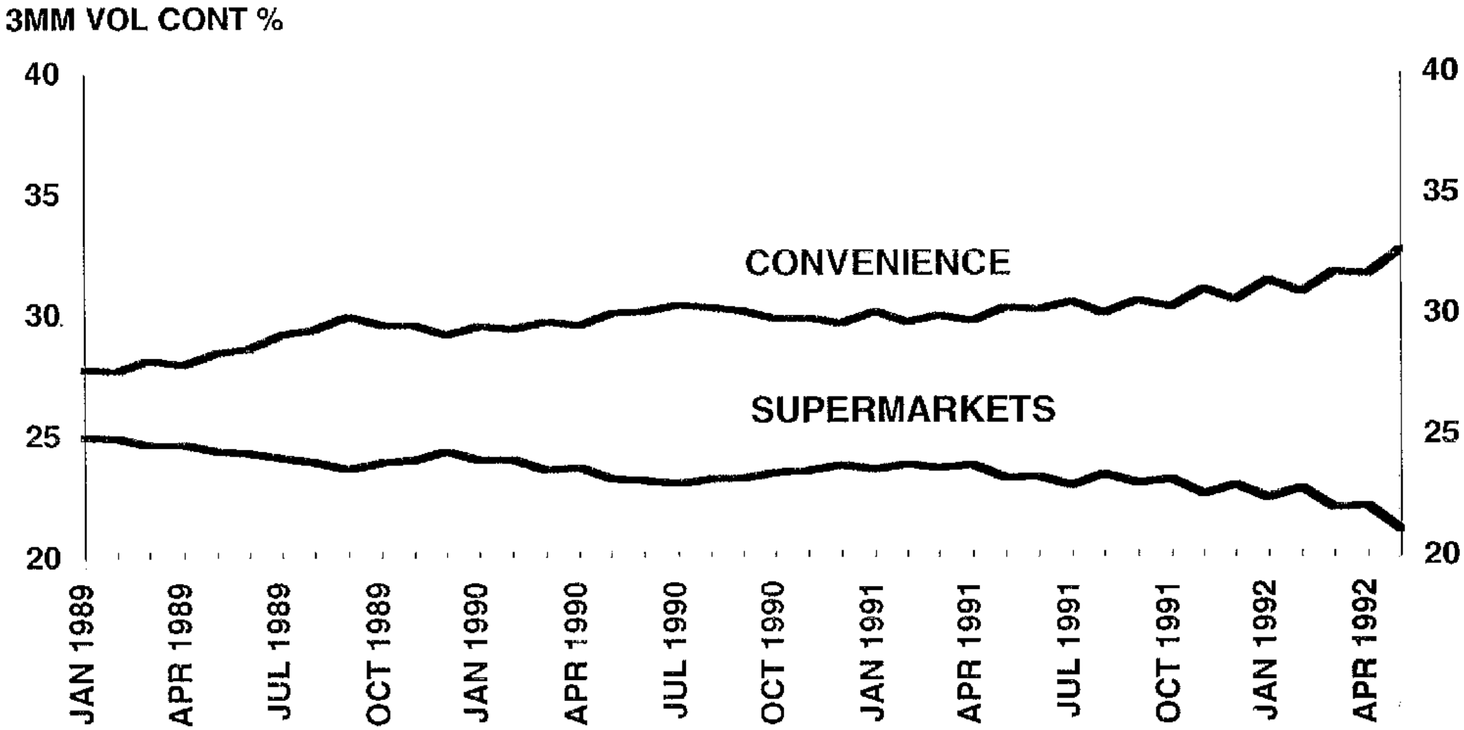
SOURCE: INFOSCAN

LRASTCS

2041420582

PM USA

TOTAL INDUSTRY
3MM VOLUME CONTRIBUTION
TOTAL SUPERMARKETS VS. TOTAL CONVENIENCE

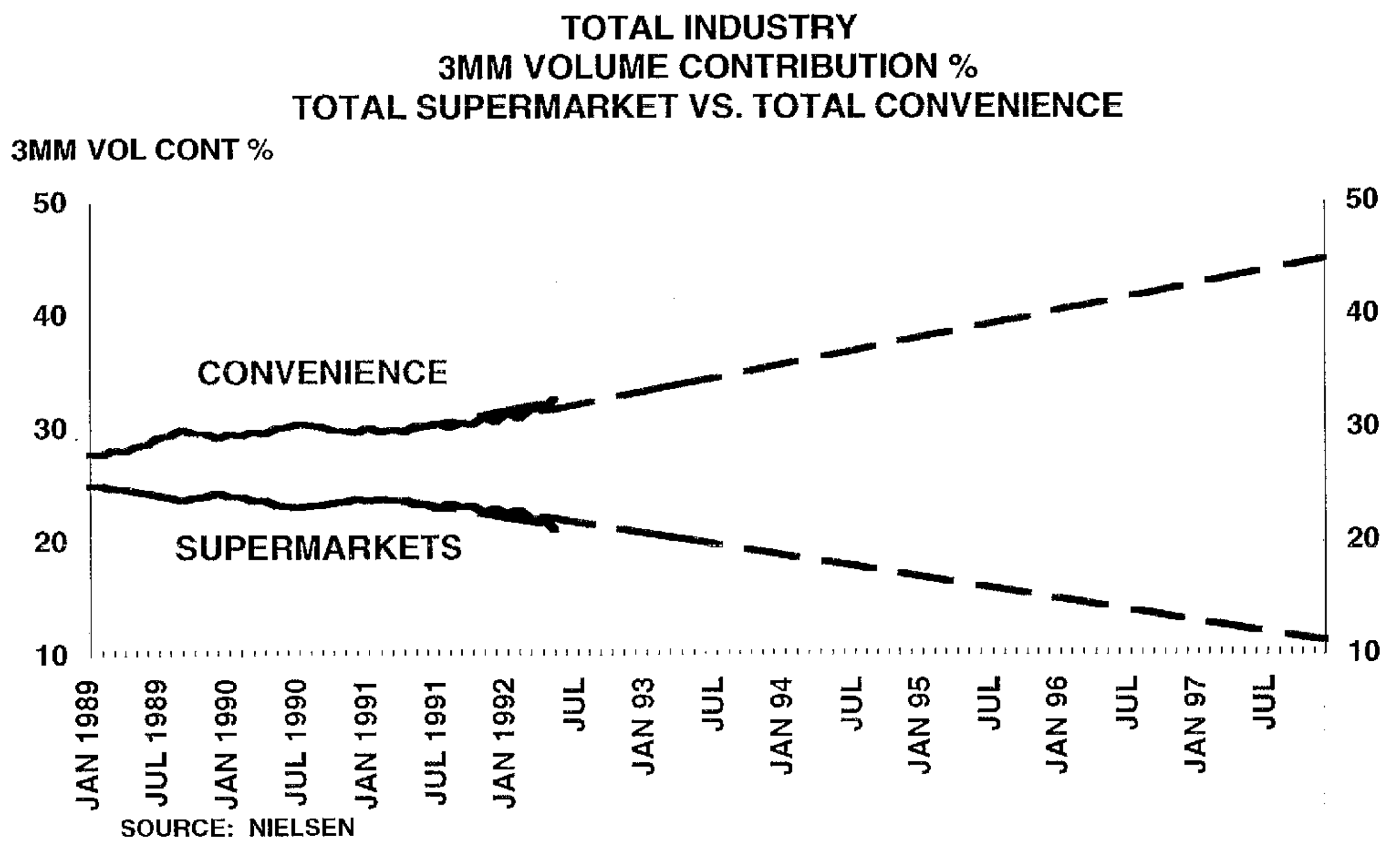


SOURCE: NIELSEN

LRASTCS

2041420583

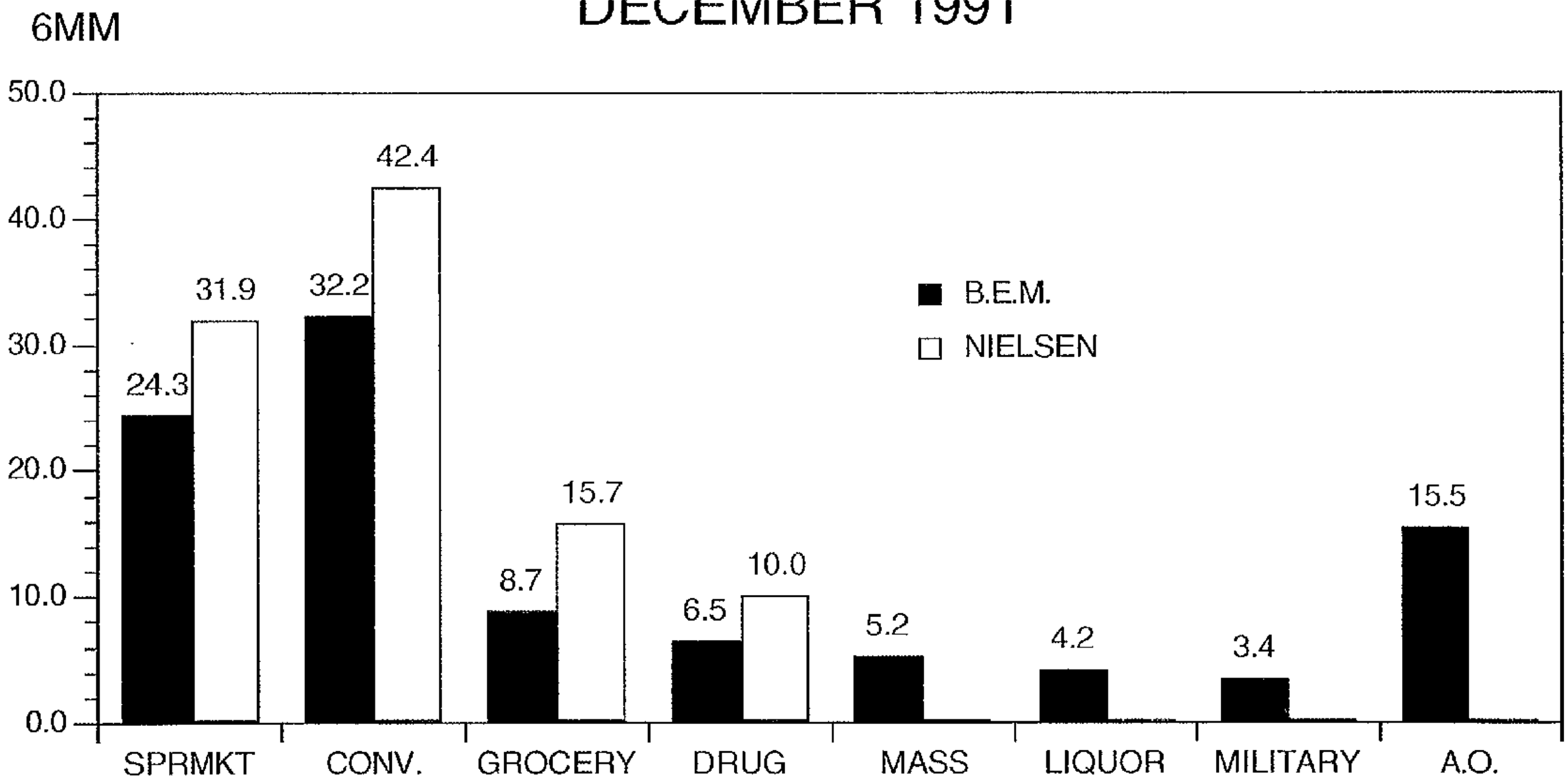
PM USA



LRASTCS

2041420584

TRADE CLASS CONTRIBUTION
BRAND ESTIMATE METHOD VS. NIELSEN
DECEMBER 1991



2041420585

PM USA

IMPLICATIONS OF GROWING C-STORE VOLUME

- GROWTH WILL ATTRACT MANUFACTURER INVESTMENT
  - % CONTRIBUTION EXPANDING FOR ALL SEGMENTS
  - COMPETITION ESCALATING FOR INVENTORY AND DISPLAY
- INCREASINGLY HOSTILE ENVIRONMENT (PREMIUM BRANDS)
  - RETAILER BW/PL PRICING
  - MANUFACTURER PROMOTION LEVELS
  - WIDENING PRICE GAP
- TRADE CLASS SEGMENTATION METHODOLOGY WEAKENING
  - C-STORES BECOMING MORE LIKE OTHER CHANNELS
- DIMINISHED PROMOTIONAL EFFICIENCY

PM USA

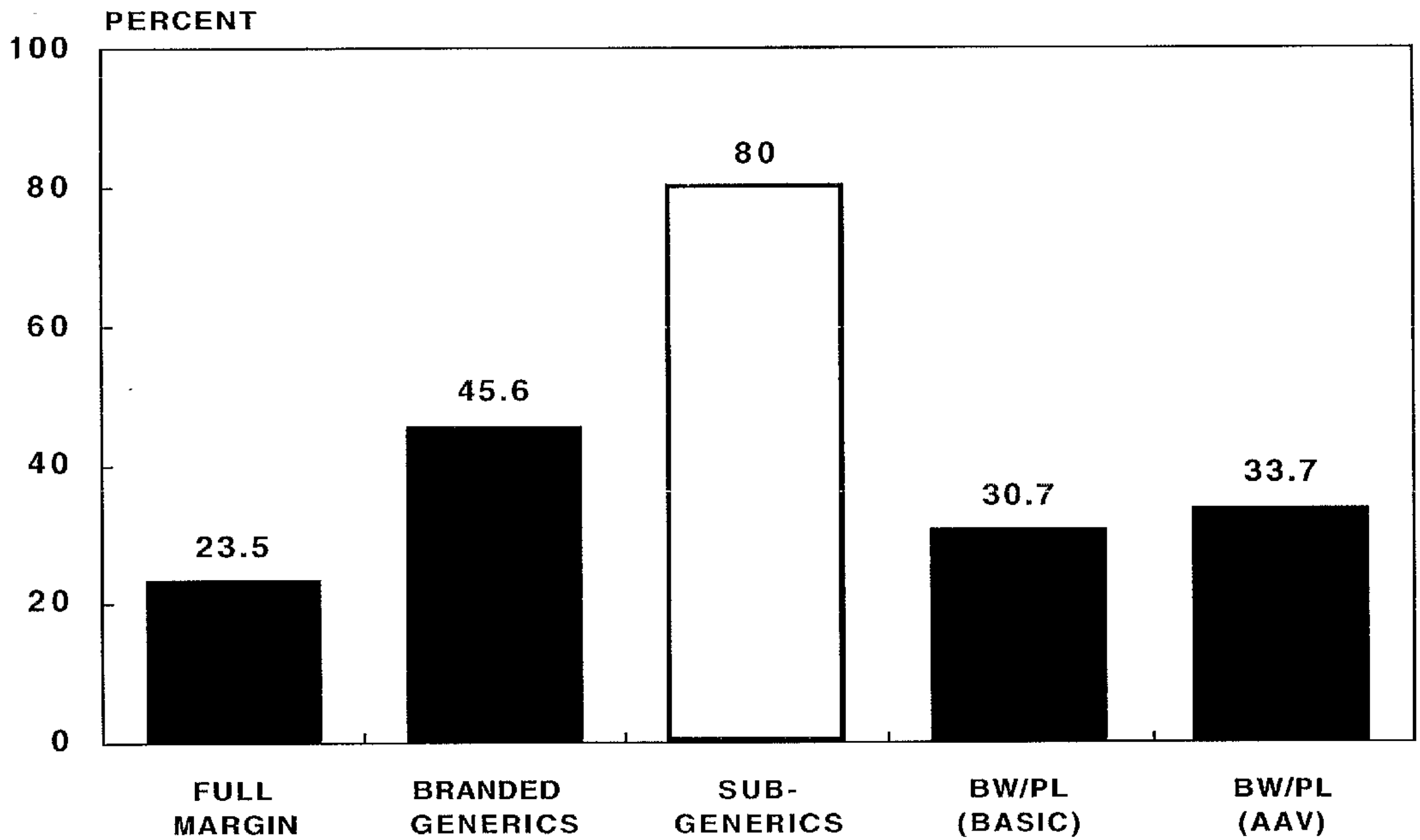
SUPERMARKET VOLUME LOSSES TO C-STORES

CHARACTERISTICS:
- ACCELERATING
- DISPROPORTIONATELY DISCOUNT

CAUSES:
- DIFFERENTIAL BRANDED DISCOUNT PRICE ACTIONS
  - CARTON "STICKER SHOCK"
  - SHIFT TO PACK PURCHASES
- NON-COMPETITIVE SUPERMARKET PRICING / MERCHANDISING
  - MARGINS HIGHER THAN C-STORES (CARTONS)
  - BW/PL LOCK-STEP PRICING
- C-STORES HAVE A CATEGORY VOLUME STRATEGY
  - PRICE CUTS AT LOW END ACHIEVE VOLUMETRIC RESPONSE
  - BW/PL PRIMARY VOLUME VEHICLE
  - FUNDING CUTS WITH HIGH PREMIUM PACK MARGINS
- INCREASED DEAL ACTIVITY IN COMPETING OUTLETS
  - CONVENIENCE
  - MEGA VOLUME

PM USA

MANUFACTURER LIST PRICE % INCREASE
Since November 1990



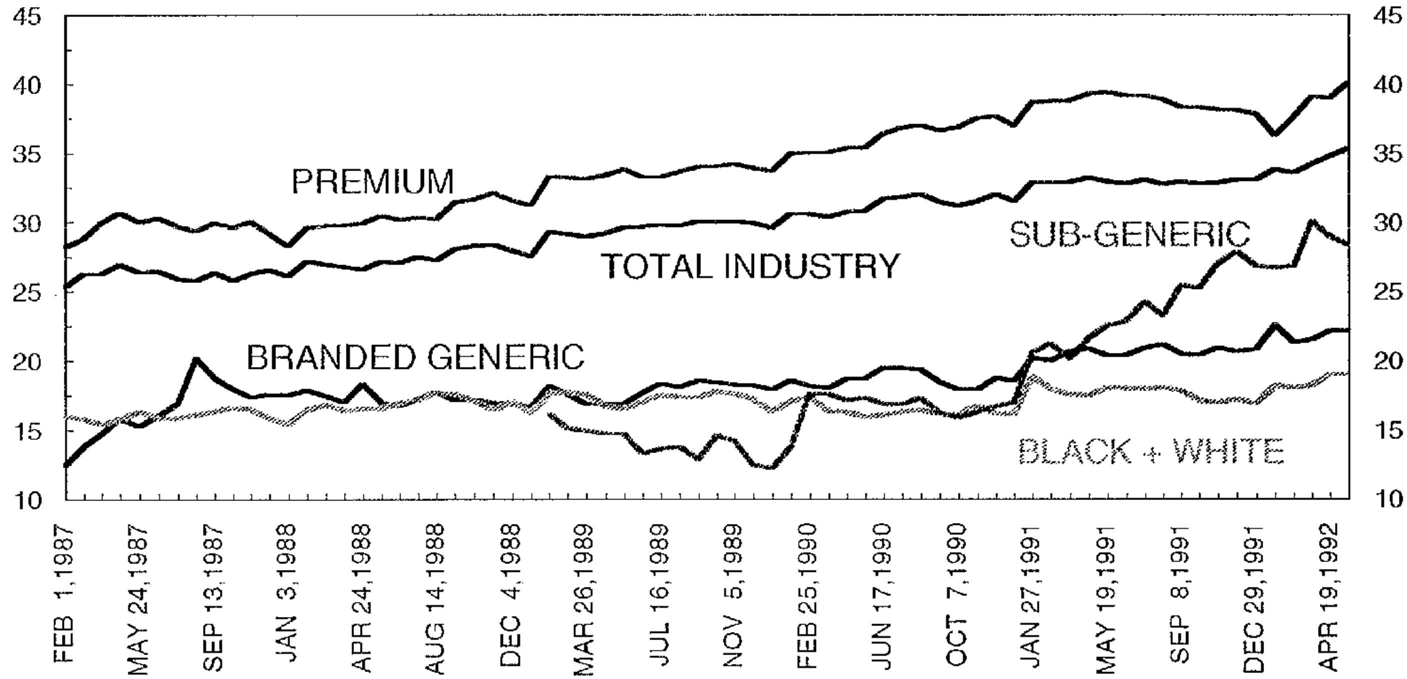
SOURCE: MANUFACTURER LIST PRICES

MFR PRICE.CHT
TZ\TCSL\AS FLDR

2041420588

PM USA

4WK PACK CONTRIBUTION TOTAL UNITED STATES



SOURCE: INFOSCAN

LRASTCS

2041420589

C-STORES HAVE A VOLUME STRATEGY

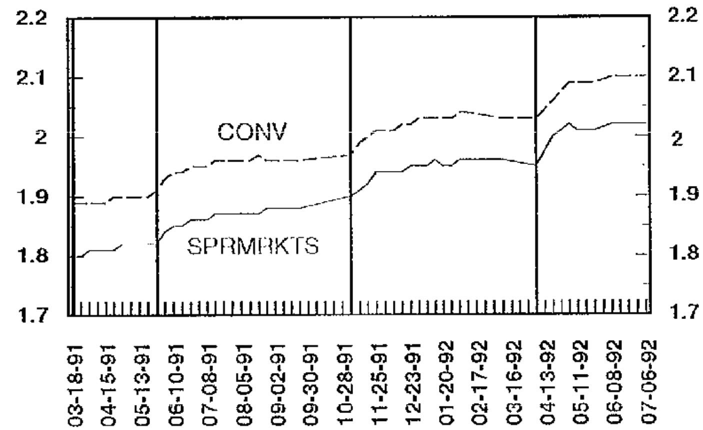
- VOLUME AND SHARE ARE GROWING
  - BW/PL TRAFFIC BUILDER THAT IS HIGHLY PROFITABLE
  - LOWER CARTON PRICES AND SHARPER GENERIC PRICES
- C-STORE RELIANCE ON CATEGORY HAS GROWN ALONG WITH PROFITS FROM CIGARETTES
- OPPORTUNITY TO COMMAND GREATER SHARE OF CATEGORY FROM SUPERMARKETS AND INCREASE VALUE OF DISPLAY SPACE
- INCIDENTAL BENEFICIARY OF ABSOLUTE CARTON PRICE

PM USA

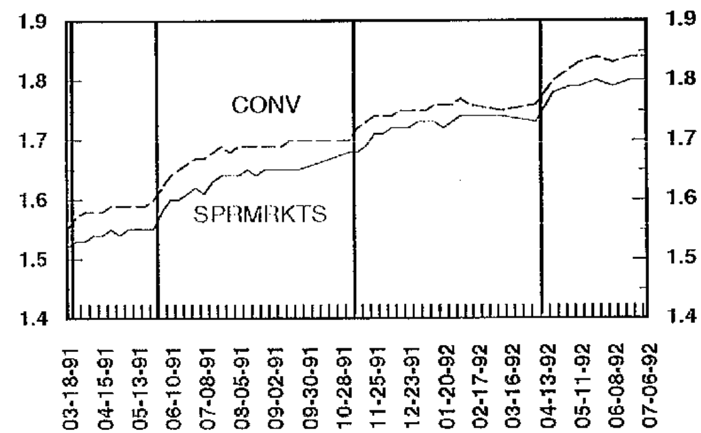
MFGR. PRICE INCREASE

RETAIL PACK PRICE BY TRADE CLASS

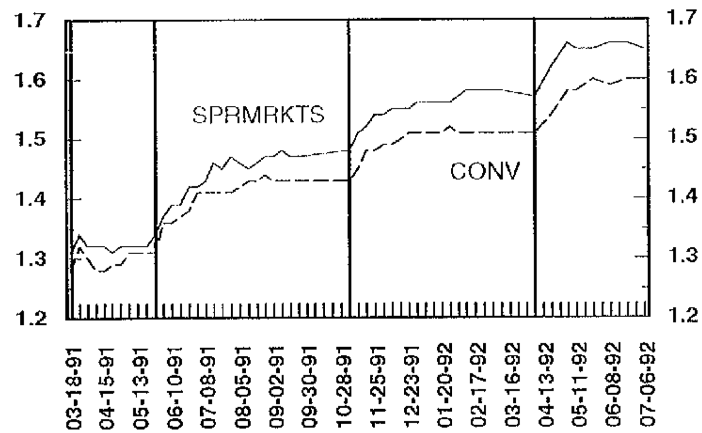
TOTAL MARLBORO



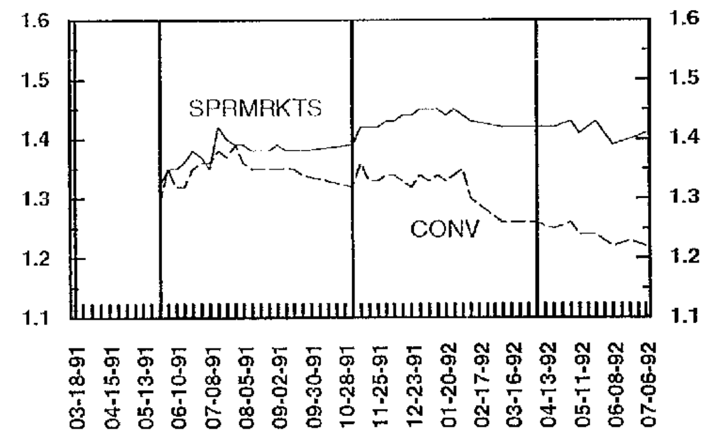
BRANDED GENERICS



SUB-GENERICS



BLACK & WHITE/PRIVATE LABEL



SOURCE: MARKET DECISION PRICE CHECK DATABASE

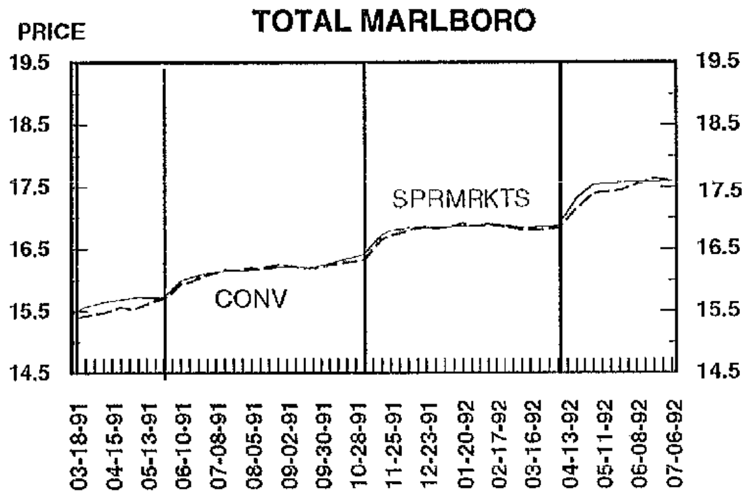
* NO DATA AVAILABLE FOR THE WEEK OF MAY 13, 1991

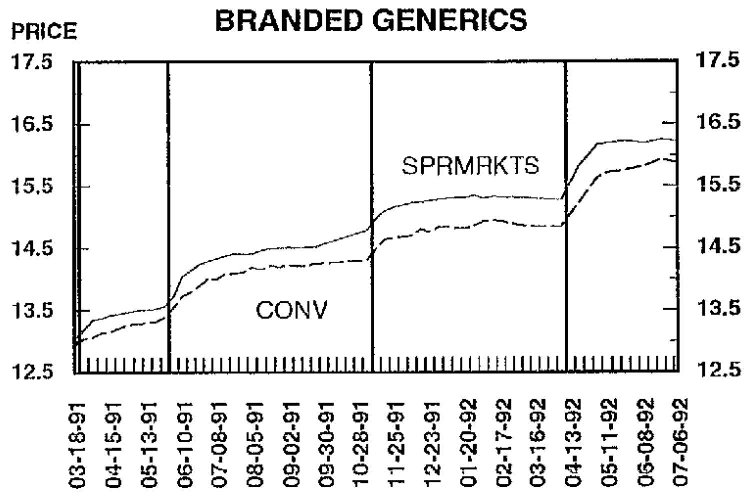
2041420591

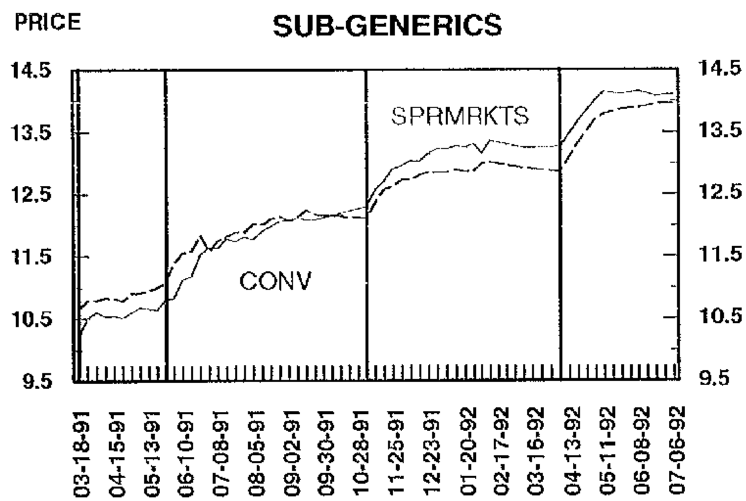
PM USA

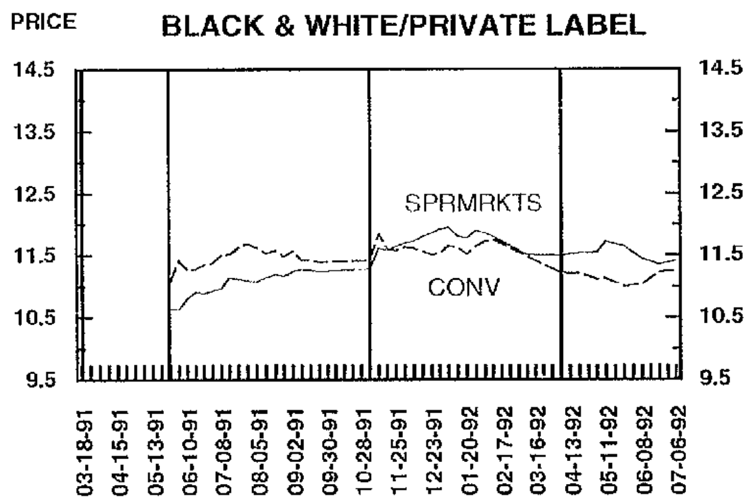
MFGR. PRICE INCREASE

RETAIL CARTON PRICE BY TRADE CLASS









SOURCE: MARKET DECISION PRICE CHECK DATABASE

* NO DATA AVAILABLE FOR THE WEEK OF MAY 13, 1991

2041420592

PRICE GAPS

MARLBORO VERSUS COUPONED BLK&WHT/PL

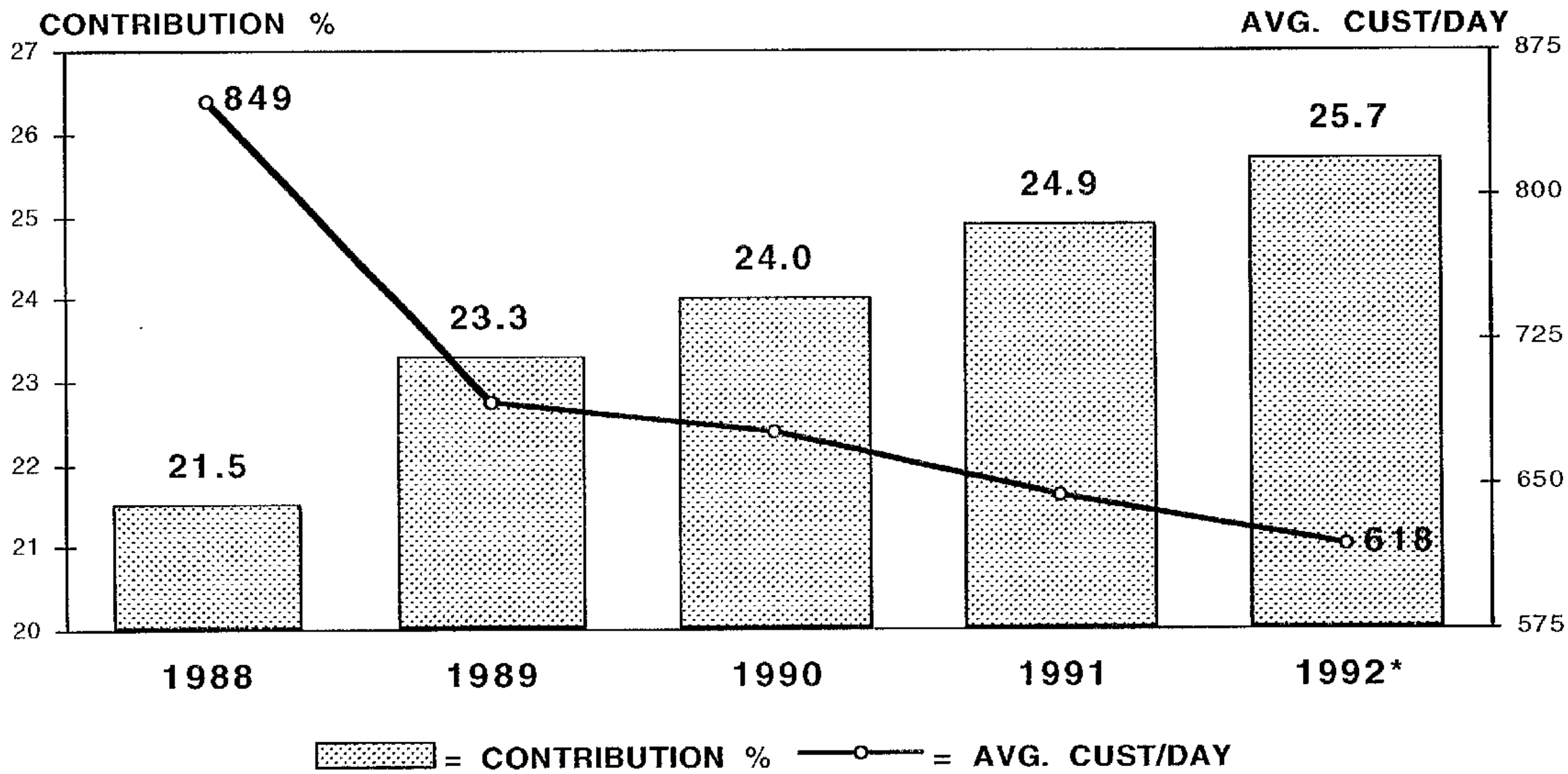
% OF FULL MARGIN PRICE

	CARTONS IN SUPERMARKETS	PACKS IN CONVENIENCE STORES
MAY 1991	33.0%	32.5%
AUGUST	32.5%	31.6%
FEBRUARY 1992	32.0%	37.7%
MAY	36.0%	41.1%
AUGUST 10	38.0%	44.3%

SOURCE: RETAIL AUDIT PANEL

PM USA

CIGARETTE CONTRIBUTION TO C-STORE SALES
vs
AVERAGE # CUSTOMERS PER DAY



SOURCE: NACS
* 1992 ESTIMATED

SALESVSCUSTOMERS\AS FLDR

2041420594

TZ\TCSL\AS FLDR

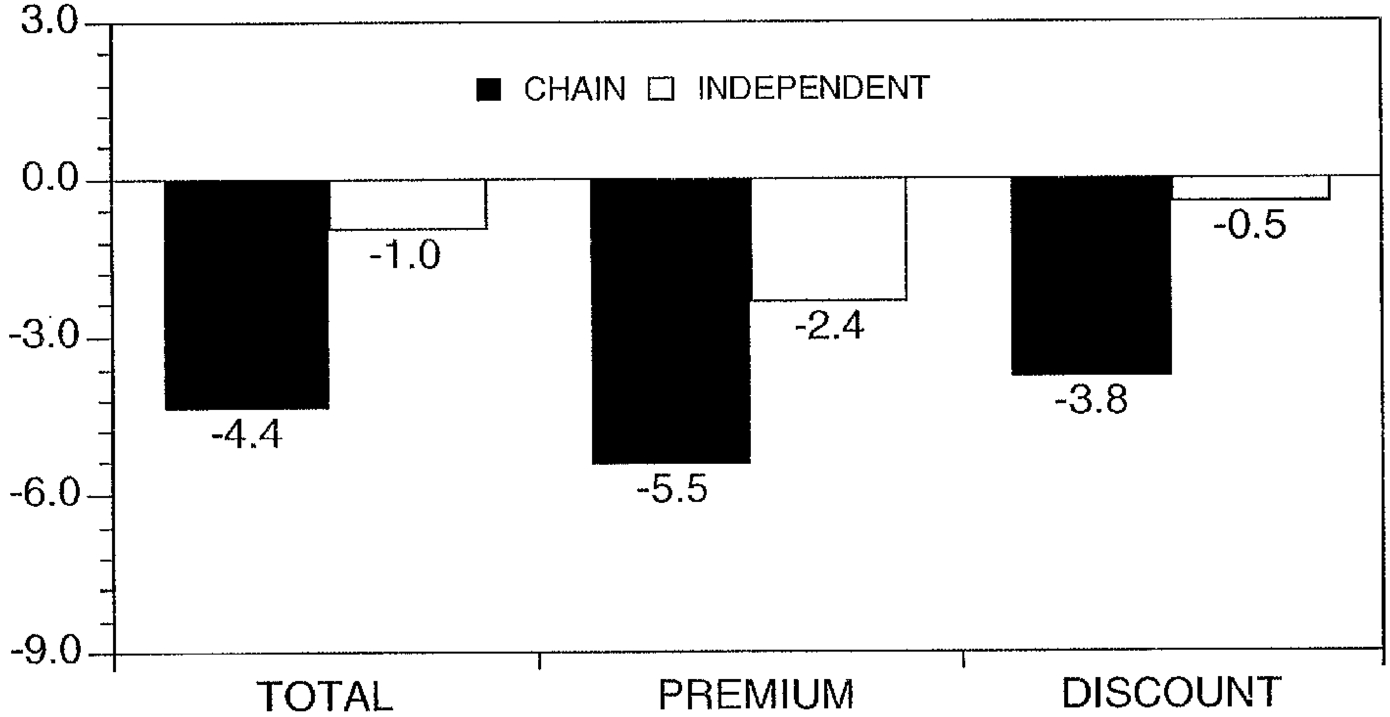
PM USA

RE-EMPHASIZE CARTON OUTLETS

- CREATE CATEGORY PROFIT STORY
  - EXPOSE RECENT DEVELOPMENTS/DYNAMICS
  - COMPARE TO EXPERIENCE IN OTHER CATEGORIES
- PARTNERSHIPS WITH RETAILERS
  - INFORMATION (RDM, IRIS)
  - CO-OP PROMOTIONS ON CARTONS
  - INCREASED PROMOTIONAL SUPPORT

PM USA

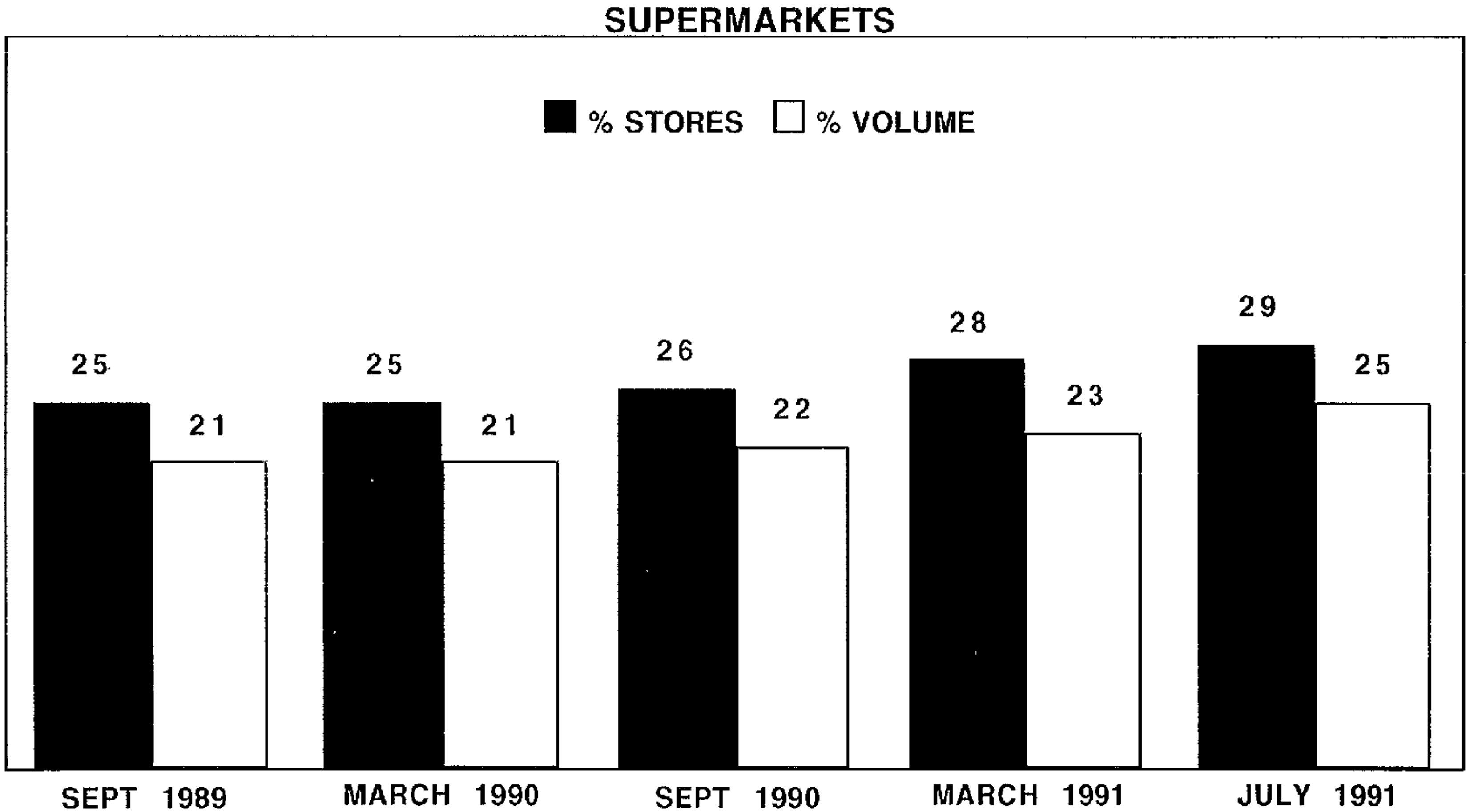
CHAIN VS. INDEPENDENT SUPERMARKETS MAY 3MM VOLUME % CHANGE VS. YAG BY VALUE



SOURCE: NIELSEN

PM USA

ANY NON-SELF SERVICE CARTON MERCHANDISING



SOURCE: SPACE

NONSELFSERV\ANDREW'S FLDR
TZ\TCSL\AS FLDR

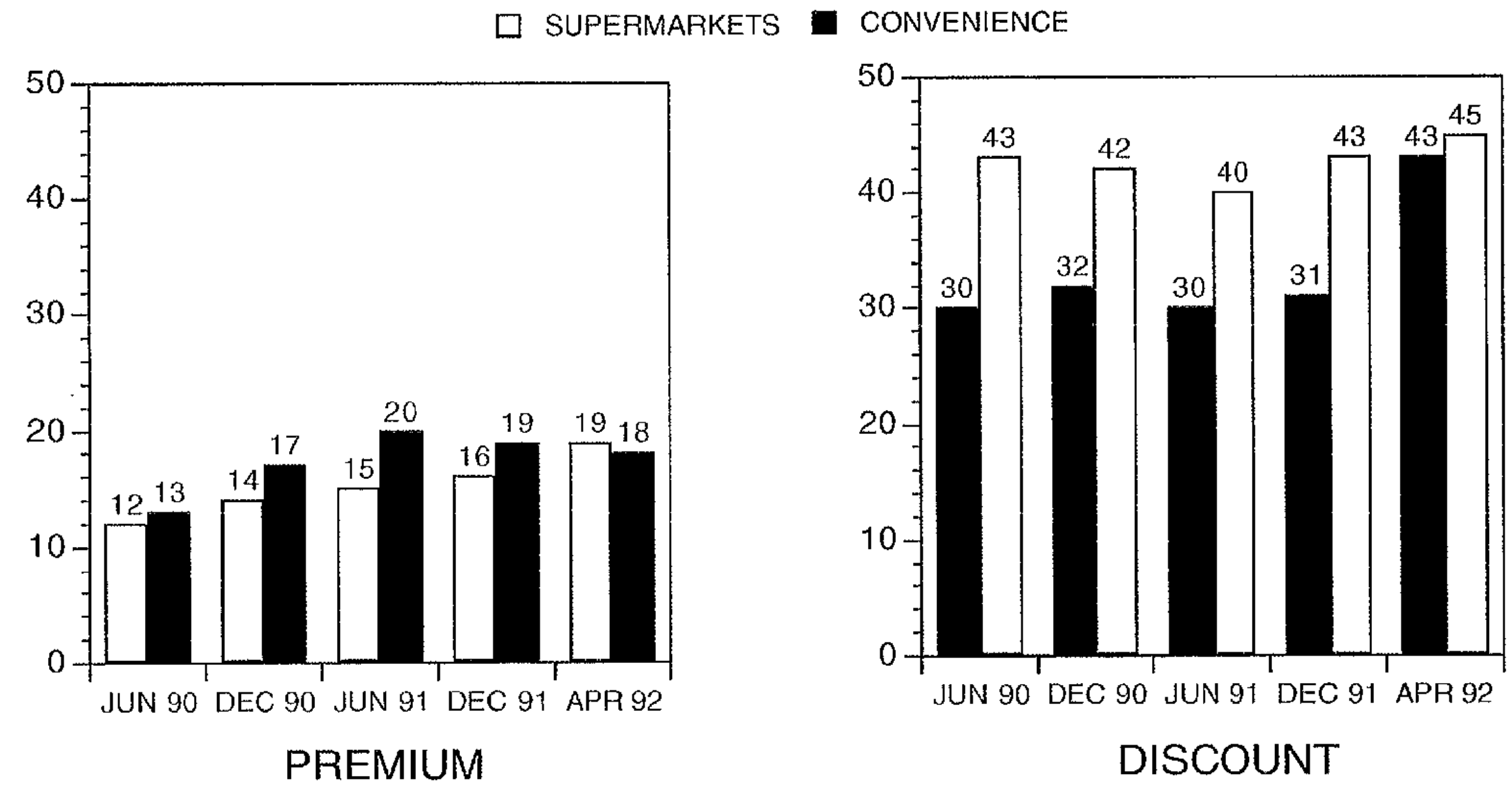
2041420597

TRADE CLASS SHIFTING
PRICING PUSH - PROMOTION PULL

- PRICING ACTIONS ARE DRIVING SMOKERS TO PACKS
- PROMOTIONS ARE PULLING SMOKERS TO C-STORES
  - REINFORCING THEIR OUTLET SWITCH
  - LOWER INCENTIVE TO EVOLVE INTO CARTON PURCHASERS

PM USA

SUPERMARKET VS. C-STORES
% VOLUME SOLD ON DEAL



SOURCE: NIELSEN HOUSEHOLD PANEL

PROJECTED TO TOTAL U.S. HOUSEHOLDS

2041420599

MARKETING VS. MERCHANDISING STRATEGIES

- MERCHANDISING
  - INVEST IN APPRECIATING ASSETS
  - LONG TERM CONTRACTS (LEASES)
  - PERMANENT HIGH QUALITY DISPLAYS
- MARKETING
  - NEW SEGMENTATION APPROACHES
  - ACHIEVE PROMOTIONAL EFFICIENCIES
  - MANAGE VOLUME TO MINIMIZE PRICE GAP

PM USA

CONVENIENCE PROPRIETORS POTENTIAL STRATEGY DEVELOPMENT

- CONTINUE TO REACH BEYOND PRIMARY18-34 MALE AUDIENCE
- DRIVE INCREMENTAL STORE TRAFFIC WITH PROMOTION OF BRANDS FOR WOMEN AND PRODUCTS/SERVICES FOR OLDER CONSUMERS
- CONTINUE WINNING PRICING STRATEGY ON PACKS
- COMPETE AGGRESSIVELY FOR CARTON BUSINESS WITH LINKAGE TO STABLE AND DEMOGRAPHICALLY BROADER BASED GASOLINE TRAFFIC
- INCREASE CATEGORY FOOTPRINT AND INVENTORY DEPTH FOR FASTEST GROWING BRANDS
- MAXIMIZE INCREASING REAL ESTATE VALUE FOR CIGARETTE DISPLAY

Trade Class Strategy

2041420601

PROGRESSION OF SEGMENTATION TECHNIQUES

1950-1970	1970-1991	1992-BEYOND
• BROADCAST - DEMOGRAPHIC	• TRADE CLASS - DEMOGRAPHIC PROXY	• GEOGRAPHIC - DEMOGRAPHIC PROXY
• TOOLS - AGENCY - MEDIA	• TOOLS - MERCHANDISING - CHANNEL PROMOTION	• TOOLS - DIRECT - RDM - NIELSEN COUNTY TYPE